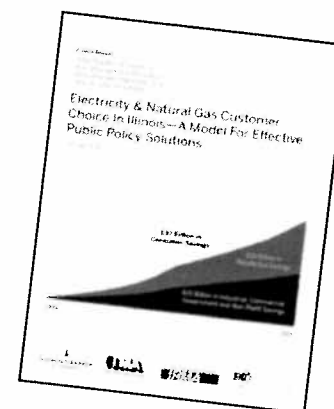


# Electricity & Natural Gas Customer Choice In Illinois—A Model For Effective Public Policy Solutions



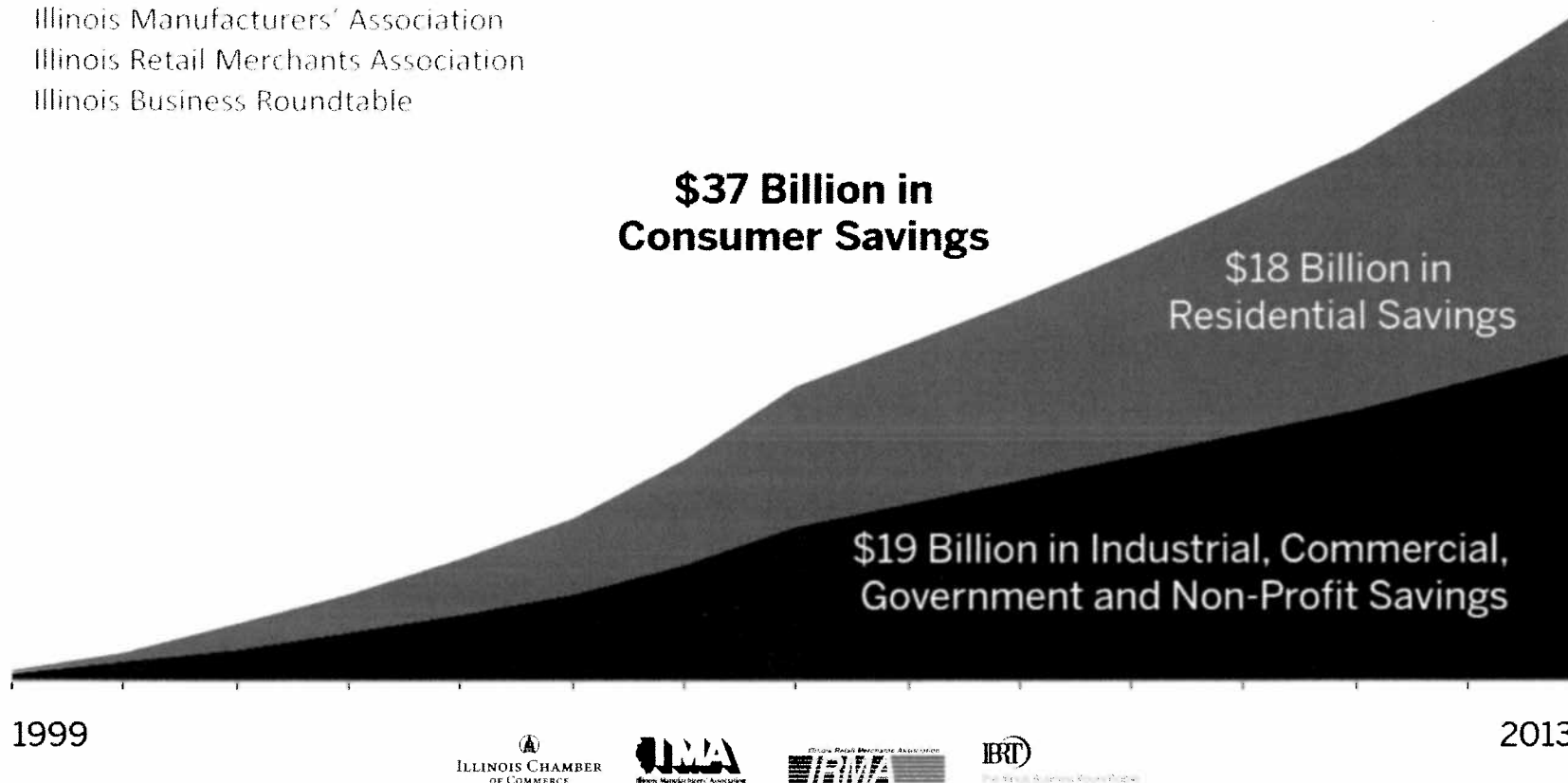
## A Joint Report

Illinois Chamber Of Commerce

Illinois Manufacturers' Association

Illinois Retail Merchants Association

Illinois Business Roundtable

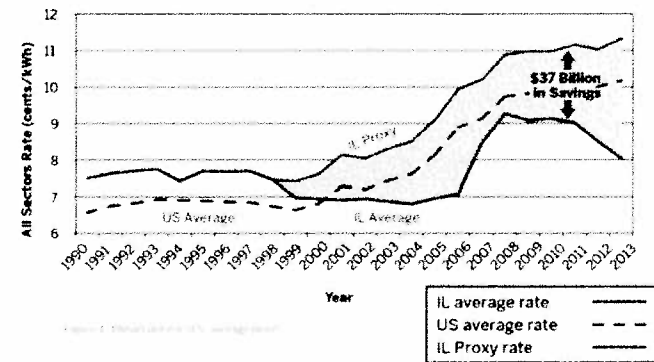


## A Triumph Of Market-Based Public Policy

- In 1997 Illinois enacted the Electric Service Customer Choice and Rate Relief Act.
- Illinois was building on its positive experience in fostering competition in gas & telecom.
- In 1997 Illinois had the 13<sup>th</sup> highest average electricity prices in the United States. In 2013 Illinois was among the 10 lowest priced.
- Households, accounting for 1/3 of usage, have realized nearly half the \$37B in savings compared to their national price position pre-1997.



## Restructuring Saves Illinois \$37 Billion

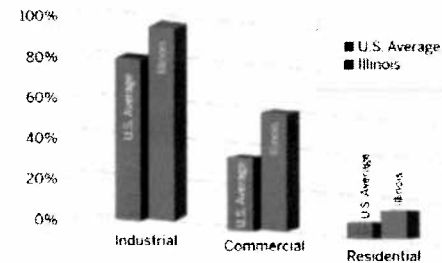


## Building on Natural Gas and Telecom Customer Choice

- Illinois was recognized as the leading state in bringing competition into local telecom service after the federal break-up of AT&T.
- Illinois, one of the largest users of natural gas, led the way in convincing Congress and federal regulators to end pipeline gas monopolies.
- Illinois exceeds the national average in end-use customer purchase and transport of gas.
- Successful reform of the gas and telecom industries provided the confidence necessary for restructuring of the monopoly electric business.



## Transport of Customer-Owned Gas is Embraced in Illinois



## Electricity Competition: A National & State Level Movement



- Congress and the Federal Energy Regulatory Commission (FERC) extended principles used in gas industry restructuring to implementing electric wholesale & bulk transmission.
- 13 states and DC allow customers to choose among many competing electricity suppliers, with local wires utilities delivering the power.
- Competitive electricity states account for one-third of all U.S. electricity usage.



## Illinois and 13 Others Have Full Access



- Full customer choice for all classes (13 + DC)
- Extremely limited customer choice (2)
- Considering retail shopping (1)
- Restructuring law repealed or delayed (4)
- Not considering restructuring (25)

Source: EPRI, 1999

Figure 1: Electricity Competition Access



## Illinois Employed an All-Stakeholders Process



- All interested parties participated in a detailed & open process to identify issues and to agree on solutions.
- Five touchstone principles were developed:
  - All customers have access to market supply
  - Wires utilities are non-discriminatory transporters
  - Multi-year transition period to new end state
  - Flexibility for utilities to reorganize & streamline
  - Stranded cost compensation for utilities
- Illinois Commerce Commission has wide discretion for implementation.



## Key Features of Illinois' Electricity Restructuring



- Transition period: year-end 2004 (later 2006).
- Tailored provisions for different utility conditions.
- ICC would have choice rules ready by Oct. 1998.
- Large customers eligible for choice first, with all customers eligible by May 2002.
- Utility rates frozen during transition & residential rates reduced 1.7%-15% depending on utility service area.
- Delivery rates for choice customers set at actual cost and unbundled from utility supply costs, thus moving away from cross-subsidies.



## Key Features of Illinois' Electricity Restructuring



- Competitive Transition Charge (CTC) added to kWh to compensate utilities for stranded costs.
- Mitigation factor would increase during transition to gradually reduce CTC to zero.
- Power Purchase Option (PPO) priced by ICC as a market estimation to jump start choice and as safety net that later proved unneeded.
- Utilities required to join an RTO of their choice.
- Alternative Retail Electric Suppliers (ARES) would be licensed by ICC as meeting financial and other standards to market supply to customers.



## Key Features of Illinois' Electricity Restructuring



- Competitive declarations by utilities could be approved by the ICC for customer classes with 1/3 of load served competitively. Utility supply could then be phased-out.
- Utilities could almost freely re-organize, merge, sell or spin-off generation plants.
- The state utility tax was revised to be based on kWh delivered rather than sold by utility in order to assure continued state collections.
- Illinois Power Agency established in 1997 as provider of last resort (POLR), ending utility role as a supplier. Also, municipal aggregation programs were authorized.



## Key Features of Illinois' Electricity Restructuring



- Illinois: from high cost to low cost state.
- Customers have embraced choice: >80% of all load is on non-utility/IPA supply including >2/3 of residential (including muni agg).
- Almost all generation is out of utility rate base in competitive market – sold or spun-off.
- >11,000 MW increase in generating (30%), more than any other Midwest state.
- Electricity is now an important Illinois export.



## Illinois Generation Grows and Becomes More Efficient



State	Nameplate Capacity (MW)		Pct. Change
	1997	2011	
Illinois	36,137	49,739	30%
Ohio	28,936	36,305	25%
Indiana	23,363	30,765	32%
Michigan	27,595	33,066	21%
Wisconsin	12,780	20,030	52%
<b>Total</b>	<b>130,436</b>	<b>169,905</b>	<b>30%</b>

Figure 1: Illinois generating capacity grew by more than 30% from 1997 to 2011. A few large plants were sold and others were

State	MWh Production per MW Capacity		Capacity Factor	
	1997	2011	1997	2011
Illinois	3,544	3,983	40%	45%
Ohio	4,935	3,764	54%	43%
Indiana	4,911	3,949	56%	45%
Michigan	3,925	3,707	45%	38%
Wisconsin	4,032	3,322	46%	38%

Figure 2: Illinois' capacity efficiency is an improvement over most capacity factors in the



## Illinois: Now a Net Exporter of Electricity

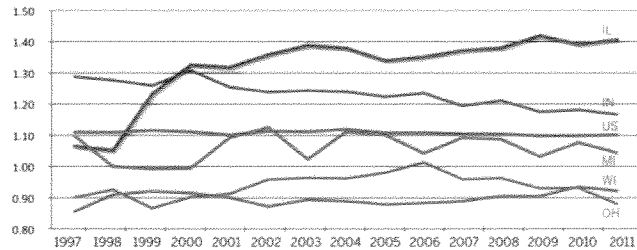


Figure 6: United Midwest states' production vs. consumption capacity, 1997-2011

Source: EIA, IEMA, IEMA, IEMA

## Residential Customers Are Following Business Customers to the Market

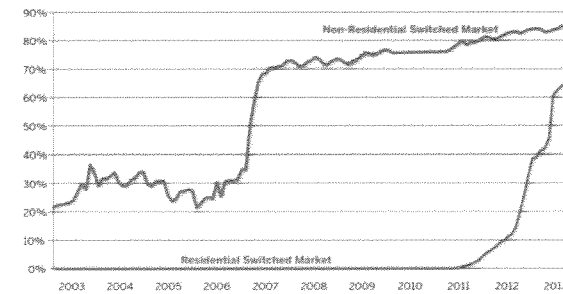
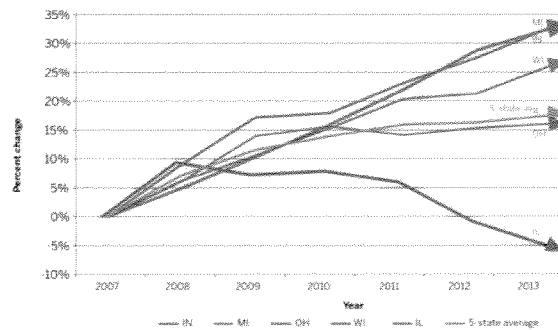


Figure 7: Midwest's switching load is skewed by electricity suppliers

Source: EIA, IEMA, IEMA, IEMA

## Illinois Prices—Once the Region's Highest— Are Now the Lowest

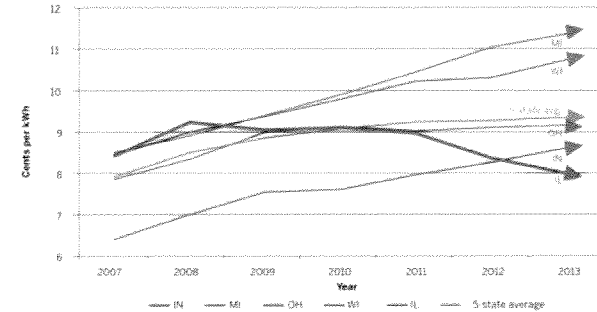


Source: EIA, IEMA, IEMA, IEMA

Figure 8: Illinois' electricity prices are the lowest in the region

Source: EIA, IEMA, IEMA, IEMA

## Illinois Prices—Once the Region's Highest— Are Now the Lowest

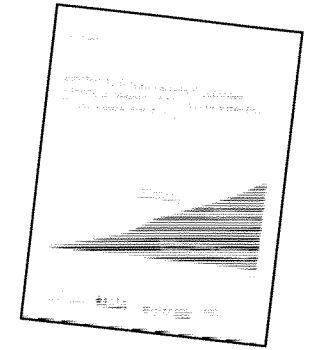


Source: EIA, IEMA, IEMA, IEMA

Figure 9: Illinois' electricity prices are the lowest in the region

Source: EIA, IEMA, IEMA, IEMA

# Lessons From Illinois' Competitive Gas & Electric Policies



- Competitive markets deliver more value to customers than does monopoly regulation.
- Good public policies can be well designed, implemented and adjusted based on experiences and lessons learned from other sectors.
- Big problems can be solved & a disadvantage can be transformed to an advantage.
- People representing differing points of view can come to a shared understanding of a problem and can develop agreed solutions.